

Personal Income Tax Overview

House Ways and Means
Emily Byrne, Associate Fiscal Officer
January 11, 2023



Personal Income Tax Calculation



Personal Income Tax Starting Point

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2022** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying surviving spouse (QSS)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial _____ Last name _____ Your social security number _____
 If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____
 City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____
 Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____
 You Spouse

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1958 Are blind **Spouse:** Was born before January 2, 1958 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a _____
b Household employee wages not reported on Form(s) W-2	1b _____
c Tip income not reported on line 1a (see instructions)	1c _____
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d _____
e Taxable dependent care benefits from Form 2441, line 26	1e _____
f Employer-provided adoption benefits from Form 8839, line 29	1f _____
g Wages from Form 8919, line 6	1g _____
h Other earned income (see instructions)	1h _____
i Nontaxable combat pay election (see instructions) 1i	_____
z Add lines 1a through 1h	1z _____
2a Tax-exempt interest 2a _____	b Taxable interest 2b _____
3a Qualified dividends 3a _____	b Ordinary dividends 3b _____
4a IRA distributions 4a _____	b Taxable amount 4b _____
5a Pensions and annuities 5a _____	b Taxable amount 5b _____
6a Social security benefits 6a _____	b Taxable amount 6b _____
c If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>	
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	7 _____
8 Other income from Schedule 1, line 10	8 _____
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9 _____
10 Adjustments to income from Schedule 1, line 26	10 _____
11 Subtract line 10 from line 9. This is your adjusted gross income	11 _____

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for:
 • Single or Married filing separately, \$12,950
 • Married filing jointly or Qualifying surviving spouse, \$25,900
 • Head of household, \$20,300



Vermont's Personal Income Tax

From federal
form 1040

Adjusted gross income

plus

Additions to adjusted gross income

Bonus depreciation, interest from non-Vermont state and local bonds

minus

Subtractions from adjusted gross income

Standard deduction*

\$6,350 for single filer,
\$12,700 for married filer

Personal exemptions*

\$4,350 for taxpayer,
spouse, and any
dependents

Other subtractions

- Interest income from U.S. bonds
- Capital gains exclusion
- Social Security exemption
- Medical expenses

equals

Vermont taxable income

*Note: Amounts for Tax year 2021; indexed
annually for inflation*



Vermont's Personal Income Tax

Vermont taxable income (VIT)

Multiplied by

Income tax rates at various brackets of income

Single Individuals, Schedule X
Use if your filing status is:
Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	40,950	0.00	3.35%	0
40,950	75,000	1,372.00	6.60%	40,950
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	99,200	3,619.00	6.60%	75,000
99,200	206,950	5,216.00	7.60%	99,200
206,950	-	13,405.00	8.75%	206,950

Married Filing Jointly, Schedule Y-1
Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	68,400	0.00	3.35%	0
68,400	75,000	2,291.00	6.60%	68,400
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	165,350	2,727.00	6.60%	75,000
165,350	251,950	8,690.00	7.60%	165,350
251,950	-	15,272.00	8.75%	251,950

Equals

Initial Vermont Tax Liability (Before Credits)



Vermont's Personal Income Tax

Initial Vermont Tax Liability (Before Credits)

minus

Non-Refundable Credits

Credit for child and dependent care expenses, credit for elderly and disabled, investment tax credit, Charitable Tax Credit

minus

Refundable Credits

Earned Income Tax Credit, Child tax Credit (Starting in 2022)

Multiplied by

Vermont Apportionment Percentage

The percentage of income based in Vermont

Equals

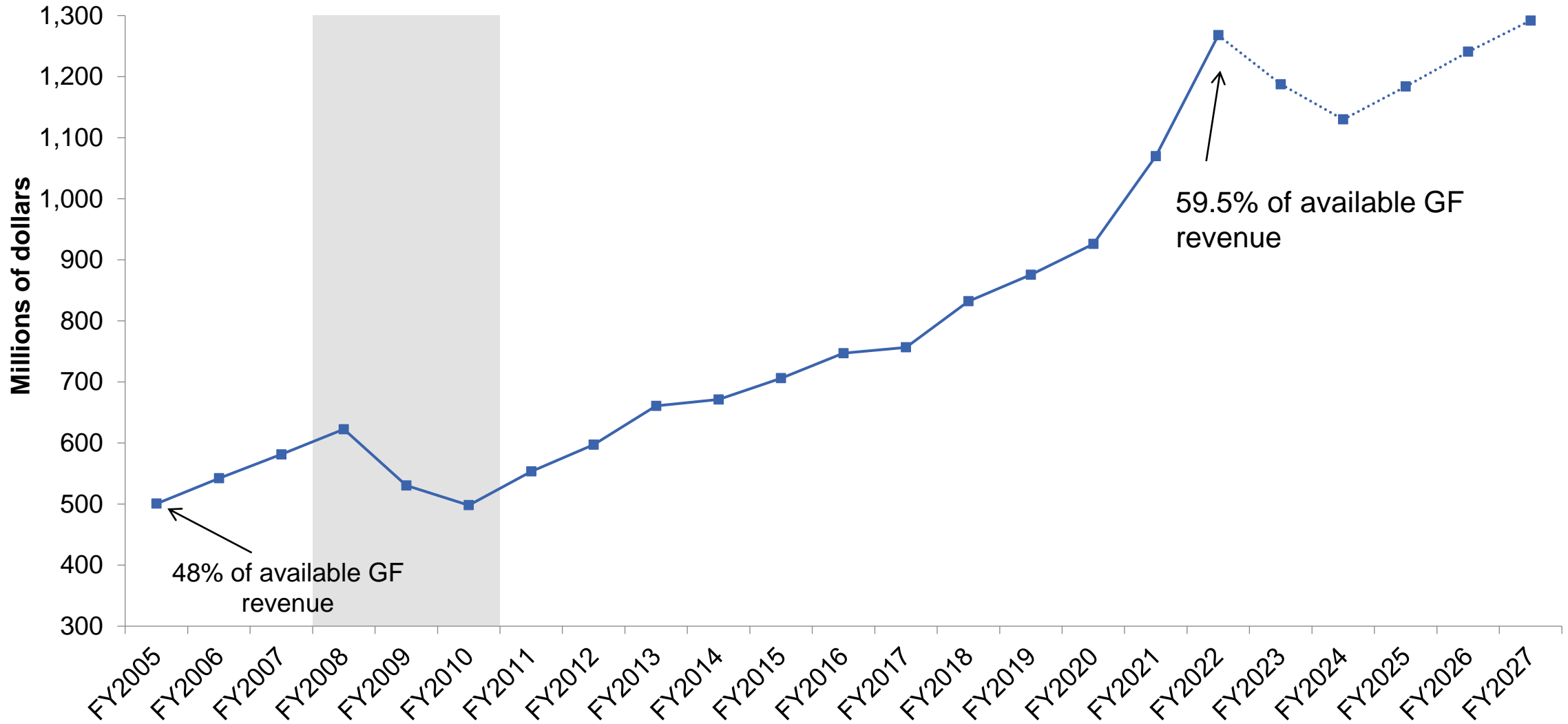
Final Vermont Tax Liability (or Refund)



Personal Income Tax By the Numbers



Personal Income Tax Collections since FY2005 (Not Adjusted for Inflation)



Source: July 2022 Consensus Revenue Forecast



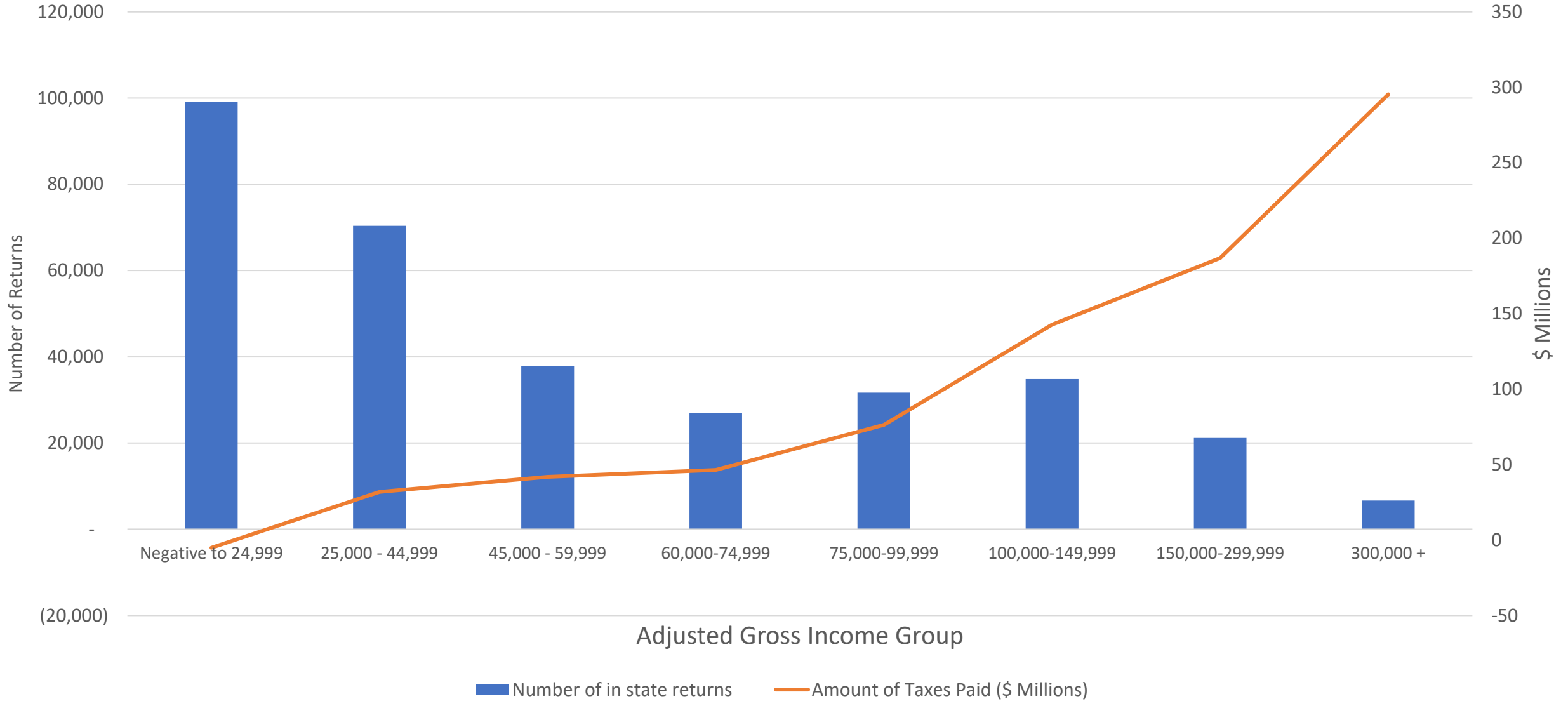
2020 Personal Income Tax Receipts

AGI income bracket	Number of in state returns	% of total	Amount of taxes paid (\$ Millions)	% of total
Negative to 24,999	99,164	30%	-5.13	-0.63%
25,000 - 44,999	70,372	21%	31.88	3.91%
45,000 - 59,999	37,913	12%	41.82	5.12%
60,000-74,999	26,933	8%	46.45	5.69%
75,000-99,999	31,690	10%	76.34	9.35%
100,000-149,999	34,828	11%	142.75	17.49%
150,000-299,999	21,159	6%	186.89	22.89%
300,000 +	6,674	2%	295.32	36.18%
Total	328,733		816.33	

Note: In 2020 there were 47,700 out of state returns providing \$68.8M in PI receipts



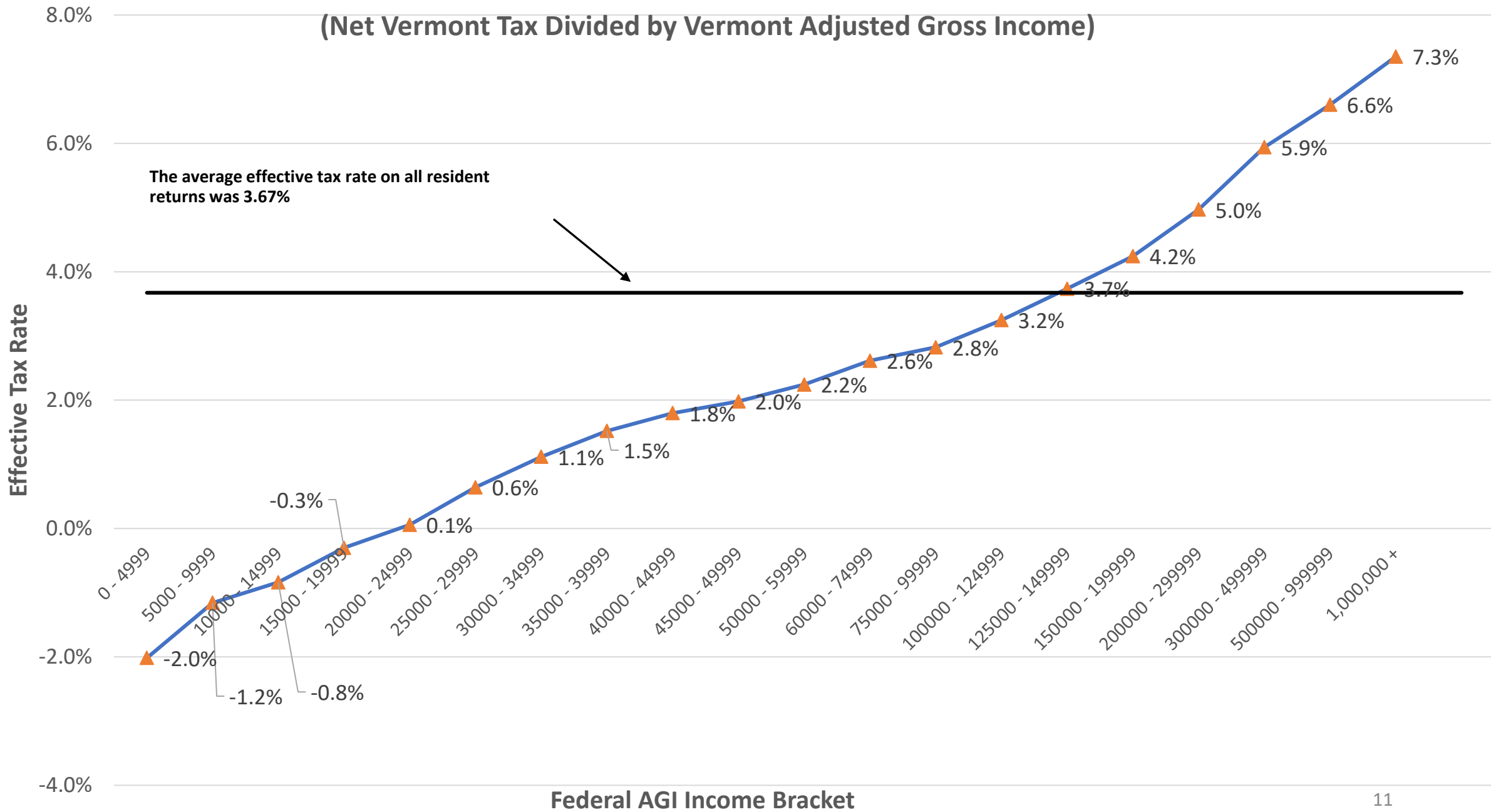
Vermont Taxes Paid By Residents, TY 2020, vs Number of Returns by Income Group



Source: Dept of Taxes



2020 Vermont Resident Effective Personal Income Tax Rate (Net Vermont Tax Divided by Vermont Adjusted Gross Income)



Personal Income Tax and the Six Principles



Six Principles

1. Sustainability/Reliability
2. Fairness
3. Simplicity
4. Economic Competitiveness
5. Tax Neutrality
6. Accountability

Source: <https://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx#principles>



Six Principles & Personal Income Tax

1. Sustainability/Reliability

- Sustainability - The income tax is known to be more volatile
 - Individual income can be impacted by general economic conditions
 - Susceptible to one-time high-income events, such as sale of a business
 - Greater progressivity in tax code could mean greater volatility
- Reliability – demographics impact the long-term trajectory of the income tax base
 - Aging population and a shrinking working age population; retirees have lower incomes
 - Greater income inequality = greater share of tax receipts from a smaller number of high-income filers
 - Linkages to the Federal Tax Code



Six Principles & Personal Income Tax

2. Fairness

- Vermont's Personal Income Tax is progressive = promotes Vertical Equity
 - High income taxpayers pay a larger portion of their income
- According to ITEP, one of the most progressive in the country

3. Simplicity

- Removing Deductions, Credits, and Exemptions would make the code simpler, but maybe at the expense of fairness
- Complexity from several different areas
 - Definitions/calculation of income – what is in, what is out?
 - Rate Schedule – should certain income be taxed at different rates?
 - Policy decisions – deductions, credits, and exemptions



Six Principles & Personal Income Tax

4. Economic Competitiveness

- Complexity of income tax makes it difficult to compare across states
 - Rates, definition, and brackets are different
 - In general, Vermont has lower effective rates than most of New England, but the effective rates increase steeply after \$100,000
 - Above \$150,000, Vermont has one of the highest effective rates.



Six Principles & Personal Income Tax

5. Tax Neutrality

- Vermont includes some incentives through the Personal Income Tax code to promote certain behaviors
 - Investment/Savings: capital gains exclusion, investment and research and development tax credit, 529 tax credit
 - Charitable tax credit
 - Limited to 5% on the first \$20,000 of donations – different from the Federal deduction



Six Principles & Personal Income Tax

6. Accountability

- Vermont Tax Expenditure Report published every 2 years
 - This year's will be out on January 17th
 - Aside from the personal exemption and standard deduction, Vermont had 24 income tax expenditures that cost \$77.8 Million in 2020
 - Annually, JFO and Tax publish reviews select tax expenditures and provides considerations for legislators.
 - Of note, in Act 138 of 2022 the General Assembly passed the Child Tax Credit estimated to cost \$32 Million
 - Other costs: CDCC, Student Loan, Military Retirement, Social Security are another \$8+ Million



FY2020 Personal Income Tax Expenditures: \$77.8 million

(note: does not contain VT Standard Deduction or Personal Exemptions)

